

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20250**

In the Matter Of:)	
)	
Federal-State Joint Board on)	CC Docket 96-45
Universal Service)	

**COMMENTS
OF
RURAL TELEPHONE FINANCE COOPERATIVE**

The Rural Telephone Finance Cooperative (RTFC) hereby submits its comments in response to the Federal Communications Commission's Public Notice FCC 03J-1, released February 7, 2003 regarding high-cost universal service support and the ETC designation process.

RTFC is a privately funded, member-owned cooperative finance organization that provides financing exclusively to America's rural telecommunications industry. RTFC supplies its member rural telecommunications providers with a complementary source of financing to the Rural Utilities Service and the Rural Telephone Bank. At the present time RTFC has approximately \$4.9 billion in loans outstanding to its 507 rural telecommunications company members.

The Universal Service Fund (USF) is an essential revenue source for rural telephone companies. These companies, on average, receive two thirds of their revenues from USF

and access charges. While rural telcos' eligibility for high-cost support has not increased significantly, the removal of implicit supports from access charges has proportionally increased the share of rural telcos' revenues that comes from the USF. Clearly, this has caused a growth in the fund.

Another source of growth in the USF is the increasing number of (primarily wireless) competitive providers that have obtained Eligible Telecommunications Carrier (ETC) status that enables them to qualify for high-cost support. The Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO) in its January 2003 white paper, "Universal Service in Rural America: A Congressional Mandate at Risk" notes that high-cost support to ETCs has grown from \$500,000 in 1999 to a projected \$100 million in 2003. OPASTCO estimates that if all eligible providers under the Commission's portability rules were granted ETC status, the fund would grow by an additional (and clearly unsustainable) two billion dollars.

High-cost universal service support is essential for rural telcos to recover their costs. These costs are substantial considering rural telephone companies serve high cost, low density rural areas and offer service to all residents in their service territories. The fact

that USF high-cost support is cost recovery for small telcos must not be lost in the debate. The term “support” implies subsidy. However this is not the case with high-cost USF support. High-cost USF promotes investment by allocating a significant portion of a rural telco’s costs to the interstate jurisdiction.

It cannot be said often enough - rural telephone companies serve the highest cost, lowest density areas in the country. All Americans benefit from the fact that residents of rural areas have access to high quality telephone service. Rural telcos’ capital investment and other costs to connect rural Americans to the national network must not be recovered solely through end user charges. To do so would force those rural Americans least able to pay extremely high charges to leave the nationwide telecommunications network – to the detriment of all Americans.

In a March 10, 2003 letter to the House and Senate Agriculture Committees, National Telecommunications Cooperative Association CEO Michael E. Brunner noted that universal service support “has been the cornerstone of the nation’s telecommunications policy for almost a century.” He cautioned, “The impact of these (FCC) actions could result in rising costs of service for rural carriers and higher rates for rural consumers.”

RTFC is very concerned with a scenario in which rural telcos, with high fixed costs and no economies of scale, see their customer base erode away.

The Telecommunications Act of 1996 requires services and rates in rural areas to be reasonably comparable to those in urban areas. High-cost USF support assures this mandate is realized. To allow exponential growth in the high-cost fund in order to

stimulate competition in rural areas is to misread Congress' clear intent as indicated by the plain language of the Act and to threaten this essential cost recovery mechanism.

RTFC knows well the level of rural telecommunications providers' costs as a result of having provided billions of dollars in debt financing for their capital expenditures.

Together with the equity investment of the owners, this debt has built facilities to provide modern telecommunications service to customers in rural and remote areas of our nation.

Lenders require their loans to be repaid on schedule with interest. Investors require an adequate return in order for the businesses they own to grow and prosper. Without adequate recovery of costs, however, rural telephone companies will not be able to secure debt or equity capital to invest in the modern infrastructure necessary to provide telecommunications services comparable to urban areas.

RTFC depends on the private capital markets to provide the funds it lends to rural telecommunications providers. If the capital markets believe rural telcos will not be able to recover their costs - that is, repay their loans and earn a return for investors - funds for rural telecommunications will quickly dry up. As a result, capital expenditures will not be made and service in areas served by rural telephone companies will deteriorate - to the detriment of all Americans.

Competition in markets that are able to sustain it is desirable. An effort to stimulate competition in rural markets through expanded eligibility for high-cost USF support must ultimately fail, however. Commissioner Kevin Martin noted his reservations about using

universal service support to create competition in high cost areas in his Separate Statement regarding the MAG Order. He stated: "I am hesitant to subsidize multiple competitors to serve areas in which costs are prohibitively expensive for even one carrier." RTFC agrees absolutely with Commissioner Martin's statement.

The present USF funding base is shrinking. Aggressive expansion of entities eligible for high-cost USF support will only hasten the day that this essential cost recovery mechanism is inadequate to meet demand. We urge the Federal-State Joint Board to focus the USF on the entities and purpose for which it was intended.

Respectfully submitted,

RURAL TELEPHONE FINANCE COOPERATIVE

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